

Minutes Of The Board Of Trustees

City Of Cincinnati

Retirement System

December 4, 2003

The Chairperson called the meeting to order at 1:30 p.m. with the following members present:

V. Daniel Radford, Chairperson
Charlie Luken, Mayor
Valerie Lemmie, City Manager
William Moller, Secretary
Joe Harrison
Brian Pickering
Ely Ryder
Edwin Volpe
John Bowling
John Cranley
Michael Rachford

Mr. Radford called for a motion to approve the minutes of the November 6, 2003 Board meeting. Mr. Pickering requested that a correction be made to the minutes in the Secretary's Report, referencing the target allocation to alternative assets to 3.0% from the 3.9%. The correction was noted by the chairperson, and approved by the Board. The motion was made by Mr. Ryder, seconded by Mr. Pickering and carried by the Board. The minutes were approved as prepared by the Secretary.

BENEFITS COMMITTEE

Mr. Harrison reported that the Benefits Committee met on December 2, 2003 at 1:30 p.m. in the Retirement Office, Room 240.

Mr. Harrison gave the following report.

1. Application for Ordinary Retirement December 1, 2003: Total – 13

No.	NAME	DEPARTMENT
33644	Edward Lanter	Hamilton County
35314	Lovell Wilkerson	MSD
39465	Richard Schupp	Transportation & Engineering
40003	Joyce Hodges	Public Services
40239	Donna Bruce	Convention Center
40277	Sharon Stultz	Police
40278	Phyllis Sloan	Health
40323	Catherine O'Toole	Convention Center
40348	John McAffry	Water Works
42084	Michael Dunham	Water Works
43891	Louis LaCortiglia	MSD
50555	Leon Allen	MSD
52751	Binnie Cobb	Police

2. Application for Retired Members Deaths: Total - 8

3. Application for Disability Retirements: Total - 2

NO.	NAME	DEPARTMENT
43014	Diane Chapman	Police
58528	Susan Verkamp	Health

4. Application for Deferred Retirement: Total – 1

NO.	NAME	DEPARTMENT
47901	Patricia Creaser	Health

Mr. Harrison reported that the Benefits Committee is in the process of developing some procedures to review cases of members who retired on disability. Mr. Harrison stated that the benefits committee will coordinate the procedures with the Law Dept. and Human Resources Dept. Mr. Harrison made a motion for approval of the Benefits Committee report, seconded by Ms. Lemmie and carried by the Board.

Mr. Radford took the opportunity to welcome Mayor Luken as an ex-officio to the Board.

INVESTMENT COMMITTEE

Mr. Moller reported the Investment Committee met on November 7, 2003. At that meeting, the investment consultant presented their performance report for the quarter ending 9/30/2003. In the third quarter, the total fund return was 2.76%, under-performing the Cincinnati benchmark by 27 basis points (2.76% vs. 3.03%). For the last one-year period, the total fund has under-performed the benchmark by 152 basis points (17.61% vs. 19.13%). Over the last three years, total fund performance exceeds the benchmark by 139 basis points (-1.71% vs. -3.10%). For the last five years, the total fund performance has trailed Cincinnati benchmark by 46 basis points (3.49% vs. 3.95%).

Mr. Moller commented that the under-performance in the third quarter was a result of both the domestic and international equity managers trailing their respective benchmarks. The fixed income managers out-performed their benchmark in the third quarter.

The Committee agreed that Navallier would remain on the manager watch list due to under-performance and that Oppenheimer should remain on the list due to concerns related to turnover of investment personnel.

Mr. Moller reported that the Committee discussed a request from Shenkman Capital for additional investment authority. Shenkman has requested authority to invest in Rule 144A securities with registration rights as well as securities with CCC ratings. The Committee approved the authority to invest in Rule 144 A securities with registration rights (no specific time limit for the registration requirement). However, the Committee did not approve the request to invest in CCC rated securities it was the sense of the Committee that the additional returns that could be earned from these lower quality securities was not worth the additional risk inherent in these securities.

Mr. Moller reported that the Committee also agreed to make a recommendation to the Board that international equity manager First State Investments be terminated due to poor performance. The Committee directed the staff to prepare a cost estimate for transitioning the assets held in the First State portfolio to new international equity managers.

SECRETARY'S REPORT

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 36
2. Resolution for Return of Contributions – Total: 33 Amount: \$ 122,305.15
3. Resolution for Loans to Members – Total: 66 Amount: \$568,888.56
4. Report on Deaths of Pensioned Members – Total: 22
5. Report on Military Service Credit prior to Membership – Total: 4

The Secretary submitted the following vouchers for payment:

PAYEE	AMOUNT
City of Cincinnati – Community Technology Services for Telephone services November 3, 2003	\$363.81
Smith Barney – For professional services rendered	\$69,951.00\$
City of Cincinnati – Printing services – Charges for the month of Nov. 2003	\$1,941.57
Business Information Solutions Inc. – Storage of CRS files	\$50.40
ABS Business Products Inc. – Monthly Rental Base rate for Copier	\$238.50
All Star Personnel Inc. – Temporary Personnel Services	\$719.06
NAPPA – Annual Membership Dues for Roshani DeSoyza Hardin	\$325.00
Paul T. Hogya, MD – Payment for Medical Disability Examinations	\$900.00
EFI Asset Liability Mgmt Services Inc. – Professional Services Rendered	\$11,075.00

Parman Group Inc. – Vocational Review – Return to Work Evaluation	\$700.00
Finance – Accounts & Audits – Billing for services performed by L. Reisert & D. Hamberg	\$33,126.66
All Star Personnel Inc. – Temporary Personnel Services	\$631.50
Levi Ray & Shoup Inc. – Professional Services Rendered for Pension Gold	\$1,200.00
Mae Consulting Inc. – Professional Services Rendered	\$2,160.00
Millennium Business Systems - Payment of Image Drum for copier	\$216.00
City Treasurer – Professional Services Rendered	\$12,583.46
The Bank of New York – Custodial Fees	\$30,984.94
Business Information Solutions Inc. – Storage of CRS files	\$50.40
Paul T. Hogya, MD – payment for Medical Disability Examinations	\$650.00
City of Cincinnati Communications Technology Services – Telephone services for December 2003	\$363.81
Finance – Printing Services – charges for December 2003	\$4,094.11
All Star Personnel Inc. – Temporary Personnel Services	\$631.50
City of Cincinnati – Accounts & Audits – Charges for Medical Insurance	\$11,893.47
The Northern Trust Company – Custodial Services	\$13,929.09

The Secretary reported that at the close of business November 30, 2003, there was in the Treasury to the credit of the Retirement System, the amount of \$11,979,945.75.

Asset Valuation:

- December 31, 2002: \$1.99 billion
- October 31, 2003: \$2.21 billion
- YTD Increase (Decrease): 10.93%

Current Asset Allocation: (Policy Objective)

- Domestic Equity: 52.7% (50%)
- International: 13.7% (13.5%)
- Fixed Income: 32.3% (33.5%)
- Alternative Assets/Treasury Cash: 0.7% (3%)

PENDING BUSINESS

Asset/Liability Study:

Mr. Fink reported that the asset/liability study is still ongoing, and that he would like to set up meetings with board members so they can review the model developed by EFI Actuaries. Mr. Fink indicated that he expects the Board to be making asset allocation decisions by the end of January or as schedules permit. Mr. Radford stated that Board should have an understanding of the Asset Allocation study before the Board approves it.

Ms. Lemmie stated that it is the hope of the administration and the Board can collectively come up with a set of recommendations as to how to proceed. She further stated that she has requested the retirement staff to go back and do more research over the next few

weeks and bring back recommendations to the Board for a full discussion, so that a final decision can be made so that the Board can present this issue to Council by Spring 2004.

Survivor Benefits:

Mr. Giles reported that the Benefits Committee has reviewed an update to the comparison chart regarding Death and Survivor Benefits for various retirement systems. The benefits committee recommended that after review no action to change these benefits would be required at this time. Mr. Rachford called for a motion to accept the recommendation of the Benefits Committee. The motion was made by Mr. Rachford and seconded by Mr. Pickering and carried by the Board.

International Equity Manager

Mr. Moller reported that at the Investment Committee meeting held November 7, 2003, the Committee agreed by a 3 to 2 vote to recommend to the Board that international equity manager First State Investments be terminated due to poor performance. The Committee also directed the retirement staff to prepare a cost estimate on transitioning the assets in the First State portfolio to new international equity managers.

With the assistance of the Frank Russell Company (a CRS recapture broker and international investment consulting firm), the staff presented a report that indicated the estimated cost of transitioning the assets to new international managers would be about 40 basis points if a transition manager were used to execute the transition. On the current portfolio value of \$161 million, the estimated cost would be about \$635,000. Mr. Radford commented that this amount was at the low end of the cost range that he had been anticipating. Mr. Fink then commented that utilizing the services of a transition manager helps reduce the transaction costs as they will generally trade with lower bid/ask spreads and will charge lower commission costs. Mr. Fink also cautioned that this cost estimate was prepared without having any information on the portfolios of new investment managers. A very large cost factor in transitioning the assets is the number of stocks that can be directly placed in the new manager portfolios. (The cost estimate was prepared with an assumption that 20% of the stocks would be directly placed in the new manager portfolios. Direct placements of greater than 20% is likely to result in lower transaction costs; direct placements less than 20% is likely to result in higher transaction costs.)

Mr. Bowling asked Mr. Fink if there is any preliminary indication from the asset/liability study that indicates the international equity allocation would increase or decrease. Mr. Fink responded that the early indications are that the allocation is not likely to go down, and it is likely that the model will look to increase the allocation. Mr. Bowling then asked Mr. Fink if a significant portion of the portfolio would be held in cash during the transition process. Mr. Fink indicated that if a transition manager is utilized, they would maintain the exposure to the international equity markets throughout the transition process.

After discussion, Mr. Moller moved and Mr. Ryder seconded the motion that the Board terminate First State Investments due to poor performance. The motion passed by a vote of 9/2, with Mr. Radford and Mr. Rachford voting no.

Selection of New International Equity Managers

Mr. Moller asked the investment consultant if they had a recommendation on the selection of new investment firms to manage the assets now held in the First State portfolio. Mr. Hempel commented that the search process originally began in the 4th quarter of 2002, and that the Committee interviewed six prospective managers in March 2003. At that time, the Committee identified Jarislowky Fraser, Causeway Capital, and Delaware Investments as their top three candidates.

Mr. Hempel stated that Jarislowky Fraser is a conservative growth oriented manager, and Causeway Capital and Delaware Investments are both value-oriented managers. The investment consultant recommended that both a growth style and value style manager be hired, and they further recommended that Delaware Investments be selected as the value style manager as they have had better risk adjusted returns than Causeway Capital.

After discussion, Mr. Moller moved and Mr. Volpe seconded the motion that the assets currently held in the First State portfolio be split evenly between Jarislowky Fraser and Delaware Investments. Mr. Ryder then submitted a friendly amendment to the motion that the services of a transition manager as selected by staff be utilized to transfer the assets to the new managers. The motion passed unanimously.

Corporate Governance:

Mr. Radford commented that AFSCME has a representative that works exclusively on corporate governance and he would facilitate a conversation between the representative and staff.

Mr. Radford and Mr. Moller expressed their appreciation to Ms. Cooper for her dedicated service to the Board of Trustees and presented her with a recognition plaque for her years of service.

ADJOURNMENT

Upon request of Mr. Radford for a motion to adjourn, the motion was made by Mr. Harrison, seconded by Mr. Volpe and carried by the Board. The meeting adjourned at 2:30 p.m.